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Revised 10/24/03

Taxpayer Information About the Property Taxation Process

Every property owner is responsible for paying a portion of the money necessary to operate the City and School functions and the City's share of the county operations. The following explanation summarizes the budget, assessment, equalization, rate setting and collection processes to assist taxpayers in understanding the property tax system.

I. THE BUDGET PROCESS

The City must establish an annual budget, hold public hearings on the budget (one each for City and School) and submit the budget to the legislative body for approval. The budget or fiscal year for Dover runs from July 1st through June 30th of the subsequent year. The budget must be approved by June 15th preceding the fiscal year.

Who is the legislative body that votes the budgets of the City, School and County? Since Dover has a council/manager form of government, the City Council approves the City and School budgets. The City Council is made up of a Mayor, 6 Ward Councilors and 2 At-Large Councilors. The county delegation, comprised of the State Representatives from the county, approves the budget necessary to fund county government.

The City Council is responsible for setting all budget amounts for both the City and School. For the School Department, however, the City Council can only set the total of appropriations (legal spending limit) and cannot make specific changes to the budget. The School Board, an elected body consisting of 6 ward representatives and 1 at large, is responsible for allocation of the appropriations into the various spending areas.

The budget consists of many different funds. The fund that raises property taxes is the General Fund and the only fund considered in this review. The General Fund accounts for basic governmental services supported mainly by property taxes, such as Police, Fire & Rescue and Public Works. The budget is made up of two main parts, estimated revenues and appropriations. Estimated revenues are the budgetary estimates of revenue to be received from various sources. These include, for example, Motor Vehicle Permits, Recreation Fees, State payments for Rooms & Meals or Highway Block Grant and School Tuitions. Appropriations are legal authorizations granted by the City Council to incur expenditures and obligations for a specific period. Examples include salaries of employees, insurance costs, maintenance of buildings and vehicles or payment of debt.

A portion of the money to operate Schools is raised through the State Education Property Tax. The State Education Property Tax is billed, collected and spent locally for School purposes. The budget process for the State Education Property Tax takes place at the State Legislature. The legislature determines the total statewide cost of an adequate education. This cost is allocated amongst all School districts. The legislature must then fund the Education Trust Fund to pay those costs. At the present time, the State Education Property Tax is being used to fund a portion of that cost. The amount to be raised by the State Education Property Tax is the total of a municipality's equalized assessed value, less utility property located in the municipality, multiplied by the statutory rate of $4.92 per $1,000 of equalized assessed value.

If the amount to be raised for the State Education Property Tax exceeds the adequate education cost for a School district, the difference is paid to the State ("donor" communities). If the State Education Property Tax is less than the cost of an adequate education, the difference is paid by the State to the Schools in the form of Adequate Education Grants. Utility property also bears its share of $4.92 per $1,000 of value under a separate Utility Property Tax that is billed and collected by the State and deposited in the education trust fund.

In the General Fund, the amount of appropriations less non-property tax estimated revenue represents the amount of money to be raised by property taxation. Property taxes can be additionally decreased by the use of a portion of Fund Balance. The term "Use of Fund Balance" (also referred to as deficit spending) is used for budgetary purposes to reflect the amount that budgeted expenditures (appropriations) exceed estimated revenues. This budgeted net loss is financed by use of Fund Balance available from previous fiscal years. The City Council's policy is to retain Fund Balance at 6% of the annual General Fund budget. For accounting purposes Use of Fund Balance is not considered revenue.

It is these appropriations and estimated revenues, voted by the City Council or elected representatives at county delegation meetings, which establish the basis for property taxes in Dover.

II. THE ASSESSMENT PROCESS

Property taxes are based upon the assessed value of property as of April 1. This means that a tax bill, due one half in December and one half due the following June, reflects the assessment of property on the previous April 1. For example, if a garage were built on May 15 of this year, there would not be taxes on the garage until next year, since the garage did not exist on April 1.

It is the responsibility of the City Assessor to annually determine the local assessed value of the property within Dover as of April 1 each year. The intent is to assess property at its "full and true" value, also referred to as "market" value. By doing so, it insures that property within the municipality is assessed proportionally, i.e., each property owner bears their share of the property tax burden based upon the "value" of their property. There are two main options to achieve this goal.

The first is a complete revaluation, usually handled by a contracted firm. During a revaluation, property is physically reviewed and then valued based upon either the sales price of other comparable properties or by other means. Since a complete revaluation is a major undertaking for a municipality, it is not conducted every year. Rather, a revaluation establishes base year property values, and then in the years following the revaluation, the City Assessor values the pick-ups. These consist of new construction, subdivisions, additions and other changes to the property. This form of revaluation is estimated to cost from $850,000 to $950,000.

These pick-ups are assessed as of April 1 and are valued not at current year values, but valued at the revaluation year values. That way, if a revaluation has been done in 1995, a 3-bedroom cape style home built in 1999 will be assessed comparably to a 3-bedroom cape style home built in 1995 (assuming all other factors affecting the value of the home are the same, such as the neighborhood, the amount of land, the quality of construction, the number of bathrooms, etc.).

The other option to keep assessed values at market value, and thus maintain proportionality, is to perform the work with City staff on an annual basis. The process is the same as a revaluation, except that each property is not physically reviewed in the same year. Dover established an in-house property review program whereby each property will be visited within a five-year time frame. It is considerably less expensive and less contentious to have City staff keep assessments at market prices than performing a revaluation.

There are 3 basic approaches used to assess properties. These are the cost, sales, and income approaches. The first, and most commonly used for residential property is the cost approach. This approach looks at the actual cost of construction materials for various types of buildings, less market depreciation, in order to assign values to properties. The second approach is sales. The sales approach analyzes sales that have occurred over the previous year. They are categorized by type of building, age, neighborhood type, etc. This information is then used to crosscheck like type of properties throughout the City. It also is the main method of pricing land values. The third approach used is the income approach. Used mainly for commercial and industrial property, this approach analyzes the income statements of rental space to determine the value of specific types of properties. The City uses a combination of cost and sales approaches to assess residential property and a combination of the cost and income approach for commercial and industrial property.

To determine whether assessed values are equitable requires the Assessor to measure the Coefficient of Dispersion (COD). The COD measures the variation of sales price to assessed value amongst a set of properties with like sales prices. The average difference (from the median sales ratio) is divided by the median sales ratio to arrive at a percentage (the COD). According to the International Association of Assessing Officers (IAAO) the measure of equity falls into the following ranges:

Percent	Equity Measure
10% or less	Excellent assessment equity
11% - 14%	Good assessment equity
15% - 20%	Fair assessment equity
over 20%	Poor assessment equity

Together, the values from the revaluation or update year, plus the subsequent year pick-up values, equal the local assessed property value upon which property taxes are based. Increases in assessed valuation do not increase tax revenue. The amount to be raised in taxes is set by the budgeting process.

III. THE EQUALIZATION PROCESS

All municipalities do not conduct revaluations in the same year. Therefore, some municipalities may be assessing property close to full value (because they just conducted a revaluation), while other municipalities are assessing property at more or less than full value (because their revaluation was conducted several years ago). This inconsistency makes it impossible to compare municipalities to one another since the local assessed valuations are based upon different revaluation years.

The annual equalization survey conducted by the Department of Revenue Administration attempts to address this inconsistency by adjusting all the local assessed property values to full values. The sole purpose for equalizing local assessed property values is to ensure that public taxes and state revenues shared by towns and cities will be fairly apportioned between them. This includes state education, county and cooperative school district taxes, revenue sharing funds and adequate education grants.

The equalization process involves a detailed study of property sales throughout the state and compares these sales with the local property assessments. A by-product of the equalization process is the determination of a ratio. Generally, the ratio shows the average level at which the municipalities assessed property in the previous year in comparison to full value.

For example, a ratio of 90% would indicate that the town generally assessed property at approximately 90% of full value. The ratio does not necessarily apply to any specific property assessment, but rather indicates the average level of assessment throughout the municipality.

Over a period of several years, as the value of property increases or decreases due to market fluctuations, the ratio (the comparison of the local assessed value to full value) also fluctuates. A ratio of 100% indicates that, on the average, the municipality is assessing at full value. A ratio below 100% indicates average assessments below full value, and a ratio above 100% indicates average assessments above full value.

Neither a high nor a low ratio, in itself, should be cause for alarm. Whether a town or city is assessing at 125% or 75% of full value is really not significant. What is more important is that the assessments are proportional, so that each property owner bears their share of the property tax burden based upon the value of their property.

IV. THE TAX RATE

The appropriations voted for the City, the School and the county, less estimated revenue from all other sources and use of fund balance, equals the amount of money to be raised by property taxes. The amount to be raised by property taxes is then divided by the local assessed property values to arrive at the property tax rates. The New Hampshire Department of Revenue Administration (DRA) sets these rates.

For example, suppose the City Council appropriates $48,000,000 to fund City and School operations plus the county tax is $2,000,000. The City anticipates receiving $12,000,000 from motor vehicle registrations, other fees, School revenues, including Adequate Education Grant, and $8,000,000 to be raised for the State Education Tax. The balance of money to be raised by taxes would be $30,000,000. This amount divided by a local assessed property value of $1,000,000,000 would equal a tax rate of $30.00. For simplification purposes, property tax rates are expressed per $1,000 of valuation.

The equation for determining the total local property tax rate is shown in the following example:

Description	Set by	Amount
Total City & School Appropriations	City Council	$56,000,000
Add County Tax Warrant	County Delegation	4,000,000
Less State Education Property Tax	State Legislature	(8,000,000)
Less Other Revenue	City Council	(20,000,000)
Equals Amount to be Raised in Local Property Taxes	DRA	$32,000,000
Divided by Net Local Assessed Value in 000s	City Assessor	2,000,000
Equals Local Tax Rate per $1,000 of Assessed Value	DRA	$16
Plus State Education Tax rate	DRA	4
Total Rate	DRA	$20

The amount to be raised in property taxes is the total of the Local Property Taxes ($32,000,000) and the State Education Property Tax ($8,000,000 - billed, collected and spent locally) for a total of $40,000,000. Net Local Assessed Value is total value less any tax exemptions.

If there is a major increase in assessed value due to an assessment update, the tax rate will decrease as the amount to be raised by taxation is set by the budget process. If the net local assessed value were to increase 25% to $2,500,000,000, then the total tax rate would drop to $16.00. Based on the above change, the following example reflects the impact on a house assessed at $200,000:

Description	Before	After
Assessed Value of House	$200,000	$250,000
Times Tax Rate (per $1,000)	20	16
Property Taxes	$4,000	$4,000

The above reflects a perfect situation, i.e., a property's value changing at the same percent as the overall average. Most assessed values will increase more or less than the overall average, which will increase or decrease the tax burden for that property. The end result is better equity in the tax burden.

By law, the property tax bill must show the assessed value of the property, along with the tax rate for each component of the tax: the city, county, local education and State Education Property Tax rates. The State Education Property Tax Rate reflected on the tax bill may vary from the $4.92 used to calculate the State Education Property Tax amount. The reason is that the previous year's equalized assessed value is used to calculate the tax amount. This amount is then divided by the current year's local assessed value used to bill individual property owners. The amount of taxes raised is the same.

V. EXEMPTIONS AND TAX CREDITS

An exemption is a reduction in the local assessed value of property, while a credit is a reduction of the amount of tax due.

The City offers exemptions for elderly, blind and totally and permanently disabled persons.

The amount of an elderly exemption is based on the applicant's age. If the applicant qualifies, the amount is deducted from the total assessed value in order to arrive at the net taxable value. Only one exemption is allowed on the primary residence.

In order for an applicant to be eligible for an exemption level they must meet certain criteria. All applicants must have been a resident of New Hampshire for at least five years preceding April 1st of the year in which the exemption is claimed. The applicants must meet both income and asset criteria in order to qualify for the exemption. Income is the total annual income from all sources including Social Security, but does exclude the following: life insurance proceeds, expenses and cost incurred conducting a business and proceeds from the sale of assets. Insurance and asset sale proceeds are considered assets the following year. The asset criteria include all forms of tangible and intangible assets; however, the primary residence is not included toward the maximum amount.

The current levels are:

Description	Exemption
Age 65 - 74	51,000
Age 75 - 79	67,000
Age 80 & over	82,000
Blind	67,000
Disabled	67,000

To qualify for the blind exemption there are no income or asset restrictions. The person must be legally blind as determined by the administrator of Blind Services of the Vocational Rehabilitation Division of the Education Department.

Any person eligible under the Social Security Act for benefits to the disabled is eligible for the exemption. To qualify for the disabled exemption the same income or asset restrictions as the elderly applies. The following are the exemptions and the amount of assessed value exempt:

Maximum Income	Levels
Single	30,000
Married	42,000

Maximum Assets	Levels
All applicants	90,000

Application for an elderly exemption must be made to the local assessing officials by August 1st prior to the setting of the tax rates. Application for a blind or disbaled exemption must be made to the local assessing officials before March 1st following the following the receipt of the tax bill due in December.

In addition, property tax credits are available to qualifying veterans or their surviving spouses.

In order for an applicant to be eligible for a tax credit they must have provided the necessary documents to prove they served not less than 90 days in the armed forces in any qualifying war or armed conflict and was honorably discharged or an officer honorably separated or the spouse or surviving spouse of such a resident. Also eligible are residents who were terminated because of service-connected disability, or the spouse of such a resident, or the surviving spouse of any resident who suffered a service connected death.
The tax credit levels are as follows:

Description	Credit
Veteran	100
Vet - Total & Permenant Disbility	1,400
Spouse of Vet Killed in Action	1,400

Application for credit must be made to the local assessing officials before March 1st, following the receipt of the tax bill due in December.

VI. PROPERTY ASSESSMENT APPEAL PROCESS

There is a two-level appeal process available to any property owner who believes the assessment of their property is in error. The first level of appeal to request an abatement of property taxes must be made to the local assessing officials. The request for abatement must be made in writing by March 1st after the date the tax bills were mailed (In Dover, after the first due date in December). If the local assessing officials neglect or refuse to satisfactorily abate the tax, the second level of appeal is either to the Board of Tax and Land Appeals or to the Superior Court in the county where the property is located.

An opinion that property taxes are "too high" is not adequate grounds to justify an abatement. The "amount of tax" is usually not appealable since the amount of money needed to fund local government operations is determined by the local legislative bodies through the budget process. Generally, there must be an error in the assessment of the property in order to qualify for abatement.

VII. THE TAX COLLECTION PROCESS

In Dover, property taxes are due in 2 installments. The first is due in December and the second is due the following June. The invoice received for the December due date is considered to be the tax bill. This reflects the tax rates for the year, the assessed values, the total amount of property taxes due for the year and the due dates for the 2 amounts. This bill is for the current tax amount only and does not include any amounts still outstanding from other tax years. For the second due date, the City sends out a reminder. This reminder reflects any abatements or payments that have been made against the second half due amount.

After each due date, any unpaid balance will begin accruing interest at the rate of 12% per annum. Should any balance for the tax year remain outstanding, approximately 30 days after the second due date, a notice of impending lien is forwarded to the property owner. This notice states the date a property lien will be placed against the property (at least 30 days notice). A notice cost is assessed to the property owner. Should the balance remain outstanding on the date stipulated on the notice of lien, a lien will be place against the property and registered at Strafford County Registry of Deeds. The lien will include additional costs that will be added and all accrued interest to that point. This new lien principal amount will accrue interest at the rate of 18% per annum.

Taxpayers may redeem the tax lien at any time within a 2-year time frame. They must pay the lien principal, plus all accrued interest and redemption fees. The City sends statements of unpaid property taxes and liens to all property owners once a year. For any unpaid liens, the City sends an impending deeding notice to property owners 30 days prior to the 2-year mark. If the lien remains unpaid after this period, the City takes title to the property. The property can then be sold at auction per NH statute.

CONCLUSION

Property taxation in New Hampshire is a process involving all levels of government, from City Councilors, and local assessing officials, to state legislators and court officials. It is a yearly process beginning with the preparation of the budget and voting of appropriations, continuing with the assessment of property and the setting of the tax rates, and concluding with the appeal process. Residents and non-residents, homeowners and landlords, commercial and industrial businesses, all bear the responsibility for paying their share of property taxes.